



Foreign Agricultural Service

**GAIN Report**

Global Agriculture Information Network

Required Report - public distribution

Date: 7/1/2003

GAIN Report #RP3038

## **Philippines**

### **Cotton and Products**

#### **Annual**

#### **2003**

Approved by:

**Michael Woolsey**

**U.S. Embassy**

Prepared by:

Pia Abuel-Ang

---

#### **Report Highlights:**

**Cotton lint production in CY 2002/03 dropped to 650 MT from previous year's levels as a result of a sharp decline in cotton hectareage. Production is expected to recover in the long term due to yield gains from the expected commercialization of Bt cotton by 2005 . Imports are expected to remain roughly unchanged as demand for textiles and garments continues sluggish. The United States supplies over 50 percent of total cotton supply.**

---

Includes PSD changes: Yes  
Includes Trade Matrix: No  
Annual Report  
Manila [RP1], RP

## Production

The Philippines has been planting cotton for over two decades now. Yet, domestic production still stands at an average of 5 percent of total lint demand of textile mills. Cotton is considered both an agricultural and industrial crop providing incomes to farmers and industry workers and, at the same time, generating revenues for the government. According to the Cotton Development Administration (CODA), from 1991 to 2000, cotton contributed an average of 0.07 percent of total Gross Value Added in Agriculture (GVAA).

Cotton Production in the Philippines			
Crop Year	Hectarage	Yield (kg/ha)	Volume of Lint (MT)
1990-91	14719	0.39	5755
1991-92	35284	0.41	14400
1992-93	21305	0.34	7165
1993-94	7642	0.32	2468
1994-95	9104	0.49	4539
1995-96	10621	0.03	3241
1996-97	2447	0.34	833
1997-98	2011	0.31	626
1998-99	3665	0.26	944
1999-00	1683	0.23	386
2000-01	2365	0.38	908
2001-02	4187	0.41	1718
2002-03	1900	0.32	650

Source: Cotton Development Administration

Total cotton lint produced in crop year (CY) 2002/03 is expected to reach 650 metric tons, down by 63 percent from 2001/02 primarily due to the sharp decline in cotton hectarage due to abandonment of cotton plantations mainly in the Visayas region, flooding problems and lack of available credit facilities to cotton farmers. The general absence of government support for the cotton industry and large entries of illegal cotton imports have also been cited as a major reasons for the declining production. As such, cotton production is not expected recover in the short term.

Domestic and World Price of Cotton Lint		
Year	Domestic Price/ Landed Cost	
	Pesos/ kg	\$/kg
1991	56.71	2.04
1992	39.37	1.52

1993	41.50	1.66
1994	53.82	2.02
1995	68.08	2.64
1996	53.56	2.05
1997	58.48	2.07
1998	67.92	1.74
1999	52.81	1.29
2000	65.61	1.48
2001	62.06	1.19
2002	60.28	1.17

Source: CODA Reference Price Bulletin

The softening of cotton prices both in the domestic and world market in 2002 may have likewise contributed to this drop in cotton hectareage in the country. Experts have claimed that the consistent drop in cotton prices in the world market since 1995 has greatly contributed to the continued decline in the area planted. Domestic price has been consistently higher by 20 percent than imported price of lint over the past ten years. CODA says that the reason for the price discrepancy is that only medium staple cotton of superior quality is produced locally. Importation on the other hand, comprise short, medium and long staple cotton of various fiber qualities.

Through the years, there has been an erratic trend in total area planted to cotton in the Philippines, CY 1991/92 was the most remarkable cotton season when production area reached a record high of 35,284 hectares. CY 1999/00 was the bleakest period with the hectareage at a very low 1,683.

Cotton yield remained low in both CY 2002/03 and 2001/02 at 0.38 and 0.41 MT per hectare respectively due in part to the problem of bollworm infestation in the country.

It is reported that cotton growing is suitable in more than 500,000 hectares located in 25 provinces throughout the country. The area cultivated to cotton for the last 10 years averaged 10,233 hectares. Majority of these are located in region 9, 10 and 12 in Mindanao. Other areas are in region 6 and 7 in the Visayas and regions 1 and 3 in Luzon.

Of the different species of cotton, the medium stapled *Gossypium hirsutum* varieties are commercially grown in specific islands of the Philippines: UPL-C2 and CEDI-2 in Luzon and the Visayas, and CRDI-1 in Mindanao. While the Cotton Development Administration (CODA) has already developed two long-stapled *Gossypium barbadense* varieties, namely PSB-Ct9 and PSB-Ct10, commercialization has barely started. Today, there are already eight locally developed varieties approved by the National Seed Industry Council (NSIC). In addition, one cotton hybrid from India named NAVKAR 5 has been approved by the Council as a commercial variety with the registered name NSIC-Ct12.

## Consumption

Cotton consumption is likely to decline in CY 2002/03 as a result of a continued softness in domestic and export markets for garments and textiles. The total value of garments and textile exports dropped slightly by nearly two percent to P2.85 billion in 2003. The United States remains the main market (74 percent) for Philippine textile and garments, other destinations include Europe with 12 percent share and Canada with 2 percent with remaining share going to non-quota countries such as Australia, Japan, Indonesia and Hongkong. Domestic cotton consumption is forecast to improve only slightly in 2003/04 with increasing pressure from low-priced garments and textile producers such as China and India and as the domestic industry remains skeptical about a turnaround of both the local economy and export market.

Despite the projected slowdown in the economy for 2003, the country's Gross National Product (GNP) grew 5.6 percent while the Gross Domestic Product (GDP) grew by 4.6 percent in the first quarter of the year. According to the National Economic and Development Authority (NEDA), the growth in GDP topped the 3.7 percent recorded in the first quarter of 2002 but is lower than the 5.8 percent recorded in the last quarter of 2002. Experts believe that the slow economic performance forecast for the year has been aggravated by the Severe Acute Respiratory Syndrome (SARS) epidemic that hit Asia, the uncertainties caused by the Iraqi war and the impact of the El Nino weather disturbance on agriculture.

Overtime, the decline in cotton production has encouraged an increase in import volume to cope with steady demand by the textile mills. Constant levels of consumption despite decreasing cotton domestic production indicate underdeclared volumes of imported lint that are not accounted for. The CODA claims that this could be explained by the suspected illegal entry of lint through the backdoor, particularly in Mindanao.

Philippine Cotton Lint Consumption	
Year	Consumption
1992	93,940
1993	75,720
1994	83,161
1995	64,976
1996	84,016
1997	74,250
1998	45,540
1999	56,626
2000	59,270
2001	47,129

Source: Bureau of Agricultural Statistics (BAS)

## Trade

Importation of cotton is expected to remain at around 44,500 MT in CY 2002/03 even as cotton production drops to 650 MT. According to statistics from the Textile Mills Association of the Philippines (TMAP), the share of US cotton imports has been increasing. In 2002, about 52 percent of all cotton imports were sourced from the United States from just 29 percent in 1999. No significant increases in cotton imports are forecast for CY 2003/04 as textile mills and garments producers remain cautious about the domestic economy and the rebound of the exports markets.

With domestic cotton lint production contributing less than five percent of total domestic demand, the country has remained a net cotton importer. The United States supplies over half of all cotton imports; the rest coming from Australia and Pakistan.

PHILIPPINE COTTON LINT IMPORTS AND EXPORTS OF COTTON SEEDS				
YEAR	COTTON LINT IMPORTS		EXPORTS COTTON SEEDS	
	VOLUME (MT)	CIF Value (Pesos)	VOLUME	FOB Value (Pesos)
1991	50,850	2,269	7.953	26.60
1992	56,994	2,108	15.429	52.30
1993	53,883	1,745	11.443	34.20
1994	74,102	2,967	-	-
1995	59,295	2,923	2.740	12.70
1996	74,146	3,684	819.000	3.40
1997	65,990	3,144	628.000	3.10
1998	38,807	2,436	-	-
1999	53,497	2,889	-	-
2000	48,601	2,394	-	-
2001	43,902	2,424	-	-

Source: National Statistics Office (NSO)

Export was basically in terms of cottonseeds. Available data from NSO showed that the country sold abroad, particularly Japan and Taiwan, an average of 3,901 MT cottonseeds valued at 13 million pesos. The country has stopped exporting cottonseed in 1998 until the present.

Cotton lint is particularly heavily reliant on importation, with local textile mills procuring almost all of their requirements from foreign sources. Although lint consumption generally decreased in the past five years due to the economic crisis, reliance on imports significantly increased because of declining local production.

## Policy

The Philippine Department of Agriculture is deliberating on the first-ever field trial on Bt (*Bacillus thuringiensis*) cotton. The Department of Agriculture has said that a few local cotton producers and distributors have already applied to conduct field experiments within the year. These tests, reportedly to be conducted in the CODA Research Center in Batac, Ilocos Norte, are expected to determine the suitability and adaptability of producing Bt cotton under local conditions.

Bt cotton is a genetically modified crop interjected with the gene resistant to worms like lepidoptera. Feasibility studies have shown that Bt cotton is expected to improve the productivity of cotton yields by 400 to 700 kilos hectare from 1.25 to 2.5 MT per hectare using traditional varieties. Furthermore, the study also shows that a farm size of 30,000 hectares planted to Bt cotton is estimated to save 150,000 liters of pesticides worth P90 million that is usually spent using traditional cotton seed varieties.

The Cotton Development Administration (CODA) and the Department of Agriculture Biotech Program (DA Biotech) early in the year organized a meeting of key players of the local cotton industry to present and get their stand on the planned introduction of Bt cotton in the Philippines as a feasible option to develop the cotton industry. Bt cotton, is one product of genetic engineering, which is already adopted in 16 countries growing cotton. This cultivar has a built-in protection against cotton bollworm and other sucking pests. It is reported that the meeting drew positive reactions towards biotechnology.

Dr. Saturnina Halos, chair of the DA Biotechnology Advisory team says that planting may begin as early as 2005. First a safety assessment must be conducted followed by multi-location trials as required by DA Administrative Order No. 8 and the National Committee on Biosafety of the Philippines (NCBP). The CODA is optimistic about Bt cotton and was quoted as saying that "Bt cotton could be the saving grace, our last ditch effort to revitalize the local cotton sector."

## **Marketing**

The Philippines slipped down to eleventh place last year from seventh place in 1995 in the ranking among the biggest suppliers of garments to the United States, falling behind Indonesia, Bangladesh and Honduras. Statistics from the Garment and Textile Exports Board (GTEB) said this showed the domestic industry cannot afford to be complacent with competitors gaining ground against the Philippines even with quotas still in place. Last year the domestic industry exported a total of \$2.8 billion of which about almost 90 percent or \$2.5 billion went to the quota markets. Of the \$2.845 billion, the U.S. accounted for 75 percent or \$2.1 billion making it the largest market for Philippine garments and textiles.

The garments and textiles industry remains the Philippines' second biggest dollar earner, next to electronics. It has contributed an average of eight percent to the country's total export earnings for the past five years. Garments are the highest export earners, which account for 86 percent. This is followed by non-garments, which include luggage, home textile, furnishings, tents, nets, industrial clothing, with 10 percent share. Textile products like fabrics, yarns, threads and fibers, contributed four percent

PSD Table						
Country	Philippines					
Commodity	Cotton				(HECTARES)(MT)	
	2001	Revised	2002	Estimate	2003	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		08/2001		08/2002		08/2003
Area Planted	0	0	0	0	0	0
Area Harvested	5000	4187	5000	1900	0	2000
Beginning Stocks	14805	14805	15023	12323	12193	11273
Production	1524	1718	1524	650	0	700
Imports	48771	44000	41368	44500	0	46000
TOTAL SUPPLY	65100	60523	57915	57473	12193	57973
Exports	0	0	0	0	0	0
USE Dom. Consumption	50077	48200	45723	46200	0	47800
Loss Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	50077	48200	45723	46200	0	47800
Ending Stocks	15023	12323	12193	11273	0	10173
TOTAL DISTRIBUTION	65100	60523	57916	57473	0	57973